

**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES
REHABILITATION SERVICES ADMINISTRATION
WASHINGTON, DC 20202**

**POLICY DIRECTIVE
RSA-PD-94-05
RSM-1050 1/**

DATE : **August 10, 1994**

TO : **STATE VOCATIONAL REHABILITATION AGENCIES
(GENERAL)
STATE VOCATIONAL REHABILITATION AGENCIES (BLIND)
CLIENT ASSISTANCE PROGRAMS
PROTECTION AND ADVOCACY OF INDIVIDUAL RIGHTS
STATE SERVICES FOR INDEPENDENT LIVING
CENTERS FOR INDEPENDENT LIVING
REGIONAL REHABILITATION CONTINUING EDUCATION
PROGRAMS (RRCEPs)
SENIOR MANAGEMENT TEAM**

SUBJECT : **OBLIGATION REQUIREMENTS FOR FORMULA GRANTS**

PREFACE : This Policy Directive supersedes Policy Directive RSA-PD-94-04 with respect to the carryover provision for programs with a matching requirement; otherwise, this Directive is identical to RSA-PD-94-04.

This Directive clarifies RSA's policy on the matching requirement for carryover funds. For programs with a matching requirement, a grantee may carry over that portion of Federal funds that has been earned in the year of the appropriation. To be considered earned, the matching (State and local) funds must be obligated in the year of the appropriation.

BACKGROUND : Section 19 of the Rehabilitation Act (the Act), as amended, permits unobligated and unexpended formula grant funds appropriated for one Federal fiscal year, to be carried over for obligation and expenditure by the end of the next Federal fiscal year provided that any applicable matching requirement for the carryover funds has been met in the year of the appropriation. Section 19 also permits any program income that is received during the fiscal year and that is not obligated within that year to be carried over for obligation during the succeeding fiscal year.

1/ Under Development

The formula grant programs and related citations to which the carryover provision applies are as follows:

- (1) State Vocational Rehabilitation Services (VR) Program -- Section 110;
- (2) Client Assistance Program (CAP) -- Section 112;
- (3) Innovation and Expansion (I & E) Program -- Section 124;
- (4) Protection and Advocacy of Individual Rights (PAIR) -- Section 509;
- (5) Supported Employment (SE) Program -- Section 632;
- (6) Independent Living (IL), Part B -- Section 711;
- (7) Independent Living (IL), Part C, Centers for Independent Living (CIL) -- Section 721; and
- (8) Independent Living, Chapter 2, Independent Living Services for Older Individuals Who are Blind -- Section 752, when the appropriation reaches \$13.0 million.

Matching requirements only apply to the vocational rehabilitation, innovation and expansion, and independent living services (Title VII, Chapter 1, Part B, and Chapter 2) programs. Matching requirements must be met in the year of the appropriation: In order to carry over unobligated and unexpended Federal funds, a grantee must earn those Federal funds by obligating State and local matching funds in the year of the appropriation. Unearned (unmatched) Federal funds can not be carried over into the succeeding fiscal year.

The uniform administrative requirements for determining costs and obligating funds for all grantees are contained in the Education Department General Administrative Regulations (EDGAR). In general, State agencies follow Parts 76 and 80 and nonprofit agencies follow Parts 74 and 75. With respect to obligating Federal funds (allotted and reallotted funds) and program income, the rules governing what constitutes an obligation and when it arises are detailed in EDGAR (34 CFR 74.71 and 34 CFR 75.707 or 34 CFR 76.707 and 34 CFR 80.3).

Reallotted Funds

Reallotted funds are considered to be an increase to the State's allotment. The Act (Sections 110(c)(3), 632(b), and 711(c)) states that reallotted funds are to be considered part of the grantee's allotment.

Program Income

Program income is defined in EDGAR. The specific reference is dependent on the type of grantee organization. For State agencies, the

requirements for program income are stated in 34CFR 80.25 and 34 CFR 80.31(c), 80.32(e), 80.33(b), and 80.34 and for nonprofit organizations, it is 34 CFR 74.40-74.46.

POLICY STATEMENT : This policy directive sets forth the requirements for carrying over to the subsequent fiscal year unobligated and unexpended Federal grant funds (allotted and reallocated funds) and program income for the following programs:

- (1) VR Program -- Section 110;
- (2) CAP -- Section 112;
- (3) I & E Program -- Section 124;
- (4) PAIR -- Section 509;
- (5) SE Program -- Section 632;
- (6) IL, Part B--Section 711;
- (7) IL, Part C, CIL -- Section 721; and
- (8) Independent Living, Chapter 2, Independent Living Services for Older Individuals Who are Blind -- Section 752.

To carry over any unobligated and unexpended Federal grant funds, the grantee must fully meet the applicable matching requirements for the Federal funds being carried over through the obligation or expenditure of State and local funds in the Federal fiscal year for which the Federal funds were appropriated. To be considered obligated, funds must be obligated in accordance with the standards set forth in 34 CFR 76.707. Furthermore, any Federal funds which are carried over from the year of appropriation must be obligated by the end of the succeeding Federal fiscal year.

Required non-Federal funds, obligated in the year of the appropriation and used as match, must subsequently be liquidated in order for the matching requirement to be considered met for purposes of carryover.

Unliquidated non-Federal obligations reported in the year of the appropriation and subsequently canceled will not qualify as valid non-Federal expenditures for match and therefore cannot meet match for carryover purposes. The failure to liquidate sufficient first year non-Federal obligations will invalidate a grantee's authority to carryover Federal funds, and RSA will seek recovery of the Federal funds carried over.

Obligations incurred with Federal funds in the year of the appropriation which are canceled after the end of the year of the appropriation, may be reobligated in the carryover year as long as the matching requirement for

those Federal funds was met in the year of the appropriation. Federal funds must be matched in the year of the appropriation in order to be carried over.

All obligations must be liquidated within 90 days after the end of the funding period or the termination of the grant, as required in EDGAR (34 CFR 74.73(d) or 34 CFR 80.23(b)), unless the grantee carries over grant funds for obligation in the succeeding year. In that case the grantee must liquidate within 90 days after the end of the carryover period.

Reallotted Funds

Section 19 stipulates that reallotted funds are subject to the same obligation requirements as allotted funds.

Program Income

This policy directive sets forth the requirements for obligating program income earned by State VR agencies and other grantees under the formula grant programs listed above. Regardless of the type of program income generated by the grantees, program income, whenever earned, is accounted for in the Federal fiscal year (FFY) in which it is received. For example, program income received in FFY 1994 is reported on the FFY 1994 SF-269 as undisbursed program income whether obligated or unobligated and is reported on the FFY 1994 SF-269 as disbursed program income when used in the program.

Section 19 of the Act permits unobligated and unexpended program income to be carried over to the next fiscal year. All program income received but not used by a grant recipient during any Federal fiscal year may be carried over to the following fiscal year.

Program income may be used in the year in which it is received or in the subsequent year (the carryover year), whether or not Federal funds have been carried over during that same time period. However, by the close of that carryover year, the carried-over program income must be either deducted from total outlays to be claimed under the formula grant for the fiscal year that generated the income or obligated for additional program expenditures, whichever alternative applies. All program income obligations and expenditures must be reported in the program in which it is used.

There is one exception to the EDGAR requirement that program income be used in the program in which it is received. Section 108 of the Act permits reimbursements provided to States under the Social Security Act for expenditures from Section 110 funds for basic vocational rehabilitation services to be used to carry out programs for which the States receive financial assistance under Parts B and C of Title I (VR, CAP, and I & E), Part C of Title VI (Supported Employment); and Title VII (IL, Part B, IL, Part C, and Chapter 2).

If the State VR agency elects to use these section 110 reimbursements for any program specified in Section 108 other than the VR program, the

program income in question can only be used for additional allowable expenditures. Because the program income is received but not used in the VR program, the deduction alternative is not available.

CITATIONS IN LAW : Sections 7(7), 19, 108, 110(b) and (c), 632(b), and 711(c) of the Rehabilitation Act of 1973, as amended.

CITATIONS IN REGULATIONS : 34 CFR 74.40 through 74.46, 74.61, 74.71, and 74.73; 34 CFR 75.703 and 75.707; 34 CFR 76.705(b) and 76.707; and 34 CFR 80.3, 80.20, 80.23, 80.25, 80.31(c), 80.32(e), 80.33(b), and 80.34

EFFECTIVE DATE : Date Issued

EXPIRATION DATE : None

INQUIRIES : RSA Regional Commissioners

Acting Commissioner
Rehabilitation Services Administration